Impact Investing in Covid-19 Times: A Three-Step Mission

Despite the economic crunch, the joint pursuit of profit and purpose may have a very bright future. But first, we need to return to basics.

The term "impact investing" has only been around for about 20 years. However, the concepts of good business practice and social responsibility have been with us for centuries. The Covid-19 pandemic represents one of the greatest challenges yet faced by this new-old sector.

At this critical juncture, we turned to Mark Florman, **a pioneer in the impact investing space** and CEO of Time Partners, for his thoughts on what the future holds, in a recent webinar titled "Impact Investing in Times of Crisis", moderated by INSEAD professor **Jasjit Singh**. He advocated a back-to-basics approach emphasising clarity of purpose and value-add, while espousing a firm belief that the intersection of business and social responsibility is, now more than ever, a rich reservoir of opportunity for investors and society as a whole.

Defining our terms

"Impact" is notoriously difficult to define. Yet the economic climate in which we are all living demands that we, at least, know precisely what that term means *to us* in a given context. Impact investing is defined by the Global Impact Investing Network (GIIN) as: "Investments made into companies, organisations and funds with the intention to generate measurable social and environmental impact alongside a financial return".

However, Florman argues for more selective criteria, mainly encompassing change central to the targeted effort of the investor (improving access to healthcare, reducing carbon emissions, etc.). While still being recorded, more loosely consequential results are regarded as peripheral.

The evolution of impact investing

As the sector has matured, **a distinction between "impact businesses" and "sustainable businesses"** has become more finely developed.

Sustainable businesses, e.g. Unilever, combine high standards of behaviour with an overall focus on limiting negative externalities. They also emphasise fair play, strong governance and best practices. Florman argues that following these principles is the same as working towards long-term value creation. He believes that sustainable businesses represent the absolute minimum of where we should be today.

Florman defines two streams of impact businesses. The first is "profit with soft purpose". It involves businesses seeking impact with significant outcome objectives, but no mission lock. The second is "profit with hard purpose". It concerns businesses whose intent, duties and reporting focus on impact performance and which have locked-in social and environmental missions. He said that the latter type are the "ultimate" impact investing companies. However, as impact businesses may sacrifice a financial return – not necessarily a bad thing – not all businesses "must" go in this direction.

A metric for the joint pursuit of purpose and profit

Florman also emphasises that it is important that we measure our impacts, both intended and unintended. He argues that Covid-19 is an unintended consequence of poor business practices, a lack of respect for the planet and the endless pursuit of growth above everything else. Hence, we need to be conscious of what we are trying to achieve, as well as the consequences of our current behaviour.

The concept of "**external rate of return**" (ERR) was co-created by Time Partners and the London School of Economics. The ERR measures the return to society by taking into account the impact of a business decision across five vectors: the company (employees, skills, jobs created), suppliers (treatment), customers (new products and services introduced), countries (e.g. taxes) and the environment. Both the positive and negative contributions are tracked. Companies are invited to report regularly on up to 30 different metrics within the five vectors. The "total rate of return" measures the total return generated from the pursuit of both purpose (ERR) and profit (IRR). Florman hopes the ERR will become the "new normal" in terms of industry metrics by 2025.

The question everybody asks is: How does one perfectly measure external impact? The ultimate goal would be to convert a dollar into an impact unit or currency. As this is incredibly difficult – if not impossible – in the interim, investors should tell stories, seek openness and ask every company to be very explicit about the change it is creating for society and the environment. With transparency, the true impact of a business can be felt. Maybe, after all, we don't need a perfect metric, but rather information, openness and honesty.

What we can learn from the pandemic

Due to the current pandemic, economies across the world have completely flattened. People are not only worried about their health, but also about their companies, their economies and their jobs. Conversely, these circumstances may lead to a positive impact and usher in a new era of mutual responsibility. According to Florman, this global crisis means that economies could be easier to rebuild, in a more sustainable way, if everyone – businesses, workers, the community, the state and the earth – cooperates with each other.

He also argues that sustainable businesses will generate more durable profits. He is a true believer in the positive correlation between good company behaviour, better outcomes and better value creation. Additionally, businesses with a strong social contract will prosper. If consumers and workers change their behaviour as predicted, sustainable businesses will attract better employees and happier customers, and therefore capital will automatically follow. The new generation of stakeholders will perhaps care about impact so much more than we have done in the past. Hence, having a business that is good for society will just naturally become the right way of doing business.

The three-step mission

Going forward, we should: a) build purpose-driven companies, b) rebuild our economies and c) implement long-term thinking. Covid-19 seems like a very immediate threat and the rebuilding phase is going to be long. But even bigger battles lie ahead: the ageing population, growing inequality, overpopulation, the climate crisis, the rise of nationalism and the desperate need for new skills. We must now embed many of these aspects in our new economic thinking.

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